

WORKING CAPITAL FUND

FY 1999 Annual Report

Highlights

During mid-FY 1999, the Department received a Hammer Award from the National Partnership for Reinventing Government for the achievements of the Working Capital Fund Board and the participation of both customers and suppliers in developing this method for delivering and financing administrative services.

As discussed further below, the actual results for FY 1999 show continued progress in a broad range of areas:

- The Fund has had net earnings in excess of costs of \$2.3 million over three years of operation, representing less than 1% of total earnings.
- All customers paid their bills.
- There were no violations of administrative funds control procedures.
- The accuracy of billing forecasts has improved substantially, with the one problem area being the periodic restructuring of customer organizations.
- Billing was timely and accurate using the new system, with a high degree of cooperation between WCF and CFO staffs.
- Price reductions will be taken by the Fund Manager in Copying and Mail.

The Board's attention should be drawn to:

- The need to finance the deficit in the Desktop business from the early years of the Fund, and
- The need to decide on the matter of financing Telephone equipment depreciation and upgrades.

October 29, 1999

I. Relation of Earnings to Expenses

Overall, the Fund earned \$0.3 million less than expenses in FY 1999, compared to a net gain of \$2.6 million over the FY 1997-FY 1998 period. (Table I) Accordingly, the Fund had net earnings of \$2.3 million over its first three years of operation, less than 1% of earnings. As Table I illustrates, results varied substantially among businesses, but the overall result for the first two years has been substantially a breakeven situation, in line with congressional and departmental policies. Expenses have been adjusted to a business-type basis to reflect capitalization of certain major outlays (notably for acquisition of the telephone switch upgrade) and changes in inventory levels and prepaid postal charges. Certain contributions of capital, as discussed further below, have not been treated as earnings, hence the Fund had resources in addition to the net results of sales of goods and services.

WORKING CAPITAL FUND				
FY 1999 Year End Business Results (in Millions)				
TABLE I				
Business Line	Earnings	Business Expense	Net Earnings, FY 1999	Net Earnings, FY 1997-99
Supplies	\$2.9	\$2.6	\$0.3	(\$0.5)
Mail	\$1.7	\$1.6	\$0.1	\$0.5
Copying	\$2.5	\$2.2	\$0.3	\$0.8
Printing/Graphics	\$3.5	\$3.4	\$0.0	\$0.0
Building Occupancy	\$55.6	\$55.1	\$0.5	\$1.1
Electronic Services	\$0.9	\$1.0	(\$0.1)	\$0.2
Telephones	\$6.3	\$7.2	(\$0.9)	(\$1.4)
Desktop	\$1.6	\$1.7	(\$0.0)	(\$0.2)
Network	\$3.1	\$2.5	\$0.5	\$2.1
Contract Closeout	\$0.6	\$0.6	(\$0.0)	\$0.2
Payroll & Personnel	\$2.1	\$3.0	(\$1.0)	(\$0.5)
EIS	\$0.1	\$0.1	\$0.0	\$0.0
TOTAL	\$80.7	\$81.0	(\$0.3)	\$2.3

The following sections discuss the implications of the FY 1999 results for the pricing policies and management of each business line.

Supplies

This business line experienced a gain in FY 1999 after a loss of almost \$0.8 million in FY 1997

and a breakeven operation in FY 1998. The business stayed solvent during the first two years of Fund operation largely through the drawdown in inventories. By the end of FY 1998, inventory levels had been reduced to approximately 4-5 months' sales, down from an inventory of over twelve months' sales when the Fund started. The business line has liquidated excess or obsolete inventory and reduced staffing to a level commensurate with current customer demand.

FY 1999 business expenses do not reflect a \$140,000 charge that will be paid in FY 2000 for services from the Office of the Chief Information Officer. Accounting for this deferred charge in DISCAS in FY 1999 would have reduced the net earnings by nearly half. Therefore, the Fund Manager is not proposing a change in pricing policy in FY 2000.

Mail

The Mail business had net earnings of \$66,000 in FY 1999, notwithstanding two reductions in prices for internal mail distribution. At this point, the earnings from internal mail distribution are approximately 18% or almost \$200,000 **below** the costs for such distribution. However, the business line has recorded a series of one-time gains due to the delayed identification of prepaid USPS charges, and these prepaid charges effectively establish an inventory of postage that exceeds current requirements. Therefore, the Fund Manager has continued, into FY 2000 and FY 2001, the practice of foregoing charges for Pouch delivery and common mail stops. This will save customers over \$80,000 per year, reflected within the business as a further drawdown on postage inventories.

Copying

The Copying business continued to have net earnings in FY 1999, recording a profit of over \$300,000. During FY 1999, the business line re-engineered the process for acquiring and restocking paper supplies, resulting in further cost savings. Much of the equipment transferred into the Fund had already been fully depreciated, so the costs do not reflect much further depreciation. Accordingly, some of the accumulated net earnings will likely be needed for future equipment replacement. Also, there has been a recent increase in paper prices because of weather-related damage to inventories of the types of recycled paper used by the Federal Government. Nevertheless, the substantial net earnings over the past three years warrant a price adjustment, and the Fund Manager is reducing the cost-per-copy at walkup and staffed copier centers from \$.032 per copy to \$.028 per copy. This price decrease will continue through FY 2000 and will be assumed to continue through FY 2001. However, before making a permanent price reduction, we want to review trends in paper prices, so a formal decision on FY 2001 and future year costs will be made later in FY 2000.

Printing and Graphics

The business line had net earnings of \$14,000 in FY 1999, continuing the breakeven pattern of the first two years of the Fund. Furthermore, over \$100,000 in costs recorded in FY 1999 will be reflected as billing adjustments in early FY 2000, for jobs that were underbilled in FY 1999. No changes in pricing policies are proposed.

Building Occupancy

This business had earnings in excess of costs of \$531,000 for FY 1999, resulting in \$1.1 million in net earnings over the three years of Fund operation. These accumulated net earnings are reflected in the accounting system as specific uncoded contract balances. No changes in pricing policies are proposed, but the Business Line Manager has advised customers that, under current policies, the FY 2001 cost projections reflect a significant rent reduction for that year, based on recent General Services Administration pricing adjustments.

Electronic Services

For FY 1998, there were net earnings of \$300,000 on a base of \$900,000 in operating costs. This was attributable in part to deferral of capital equipment purchases and other planned improvements. For FY 1999, the customer billings were to be reduced to the \$900,000 level, but some of the retained earnings from the prior year were used to make equipment purchases. This equipment was not of the type that would be capitalized under the current Fund policies, hence the business is shown to have had a slight net cash loss in FY 1999.

Telephones and Network

These business lines are discussed together because they share some of the same contractual services and because they were both involved in the upgrade of the Headquarters infrastructure. Also, in FY 1998, the MA budget contributed over \$1 million for FY 1998 infrastructure investments, some of which were attributed to the Network business. These factors make it important to treat the business financial results together.

From FY 1997 through FY 1999, the Telephone business line had net losses of \$1.4 million, before reflecting MA contributions, and the Network business line had a net gain of \$2.1 million. The Telephone loss was attributable to the accumulated impact of depreciation charges, which were not reflected in the infrastructure cost estimates used to establish the original pricing policy in 1996. The Network gain is largely attributable to the capitalization of equipment purchases and upgrades – it does not exist as cash available for operations beyond normal uncoded obligations.

During FY 1999, the Board decided to expand the Network charges to provide a common Internet

Service Provider (ISP) for Headquarters operations, and this charge takes effect in FY 2000. However, the Board deferred final action on a proposal to increase Telephone infrastructure charges to cover depreciation. More recently, the Telephone business line has received an attractive price proposal for period upgrades of the switching systems for which most of the depreciation charges are incurred. Board action on the deferred issue of Telephone charges is warranted to permit the business line to take advantage of this offer.

Desktop

This business line reduced earnings and costs by approximately one-third from FY 1997 to FY 1998, due largely to increased customer use of manufacturers' warranties for equipment repair, rather than full-service in-house repair services. In FY 1999, there was a minor loss of \$29,000 for the restructured business. While no pricing policy changes appear warranted at this time, the Fund Manager recommends Board approval for a one-time transfer of \$250,000 from the Network business line to the Desktop business line to permit orderly liquidation of obligations incurred in periods when the business had accumulated significant losses.

Contract Closeout

This business line recorded a slight loss of \$23,000 in FY 1999 following \$168,000 in positive net earnings in FY 1998. No changes in FY 2000 pricing policy appear needed.

Payroll and Personnel

During FY 1998, in addition to customer payments, this business received major contributions from the CFO and from MA, as a first step toward combining the various payroll activities into a common financial framework. During FY 1999, costs exceeded new revenues as these contributions were drawn down, resulting in the appearance of net negative earnings of \$1.0 million. We expect to continue to operate in FY 2000 using a combination of new earnings plus balances, so FY 2000 net earnings may be negative. However, by the end of FY 2000, balances will have been exhausted and earnings should be equivalent to costs, at \$3.1 million/year. No pricing policy changes are recommended at this time.

Executive Information System (EIS)

This business line finances a portion of the headquarters contribution to the EIS effort. It does not reflect field contributions nor payments from the CFO organization. The business broke even in FY 1999.

II. Relation of Customer Payments to Anticipated Customer Billings

- o At the end of FY 1998, the Fund had received nearly \$3 million in advances in excess of actual billings. For FY 1999, we received a further \$83 million in customer advances, for a cumulative availability of over \$85 million as shown below in Table II. Overall, businesses are carrying over \$4.7 million in unbilled customer advances to FY 2000.
- By the end of FY 1999, all customers had made advanced funds equal or greater than actual billings, and no Dispute Resolution Council proceedings were required. MA represented half the unbilled advances, similar to prior patterns where MA made advances early in the fiscal year to ensure liquidity of the businesses.

WORKING CAPITAL FUND			
FY 1999 Year End Business Results (in Millions)			
TABLE II			
Business Line	Advances	Billings	% Collected
Supplies	\$3.2	\$2.9	109%
Mail	\$2.0	\$1.7	118%
Copying	\$2.7	\$2.5	105%
Printing/Graphics	\$4.0	\$3.5	115%
Building Occupancy	\$57.7	\$55.6	104%
Electronic Services	\$0.9	\$0.9	100%
Telephones	\$7.0	\$6.3	112%
Desktop	\$1.9	\$1.6	114%
Network	\$3.3	\$3.1	109%
Contract Closeout	\$0.7	\$0.6	121%
Payroll & Personnel	\$2.1	\$2.1	101%
EIS	\$0.1	\$0.1	134%
TOTAL	\$85.5	\$80.7	106%

III. Relation of Payments to Obligations by Business Line

- o There have been no violations of administrative control of funds procedures by WCF business lines.
- As shown in Table III, funds available exceeded obligations by \$6.8 million. It should be noted that these balances are not unencumbered assets, in the sense that they subsume the liabilities associated with excess customer advances, as set forth in Table II.
- Balances set forth by business line below exclude amounts available to the Fund Manager for training and contractual services, as contributed by MA.

WORKING CAPITAL FUND					
FY 1999 Year End Business Results (in Millions)					
TABLE III					
<u>Business Line</u>	Unobligated Balance 10/98	Current Year Customer Advances	Total Available	Obligations	Unobligated Balance 9/99
Supplies	\$1.2	\$2.9	\$4.1	\$3.0	\$1.2
Mail	\$0.9	\$1.5	\$2.4	\$1.6	\$0.8
Copying	\$0.9	\$2.6	\$3.5	\$2.1	\$1.4
Printing/Graphics	\$0.2	\$3.3	\$3.5	\$3.2	\$0.3
Building Occupancy	\$0.4	\$57.5	\$57.9	\$55.8	\$2.0
Electronic Services	\$0.3	\$0.9	\$1.2	\$0.9	\$0.3
Telephones	\$0.1	\$6.4	\$6.5	\$6.1	\$0.3
Desktop	\$0.4	\$1.6	\$2.0	\$1.7	\$0.3
Network	\$0.0	\$3.2	\$3.2	\$3.2	\$0.0
Contract Closeout	\$0.0	\$0.5	\$0.5	\$0.6	\$0.0
Payroll & Personnel	\$0.1	\$2.1	\$2.2	\$2.0	\$0.1
EIS	\$0.0	\$0.1	\$0.1	\$0.1	\$0.0
TOTAL	\$4.5	\$82.5	\$87.0	\$80.3	\$6.8

IV. Changes in Budget Estimates by Business Line and Customer

- o As shown in Tables IVA, the original FY 1999 Budget estimate (from 4/97) for FY99 costs was \$80.8 million. This estimate was made during the first year of the Fund's operation.. The final billing for FY 1998 was \$80.7 million, and intermediate estimates during the intervening two and a half years remained very stable. Most of the major estimating variance at the business line level had been corrected by the time the FY 1999 budget was transmitted to the Congress.

WORKING CAPITAL FUND						
FY 1999 Business Line Estimation (in Millions)						
TABLE IVA	FY 1999 in IRB (4/97)	FY 1999 to OMB (8/97)	FY 1999 to Congress (12/97)	FY 1999 in the FY 2000 Request (11/98)	FY 1999 in the FY 2001 IRB (5/99)	FY 1999 Actual Billings
<u>Business Line</u>						
Supplies	\$2.6	\$2.6	\$2.5	\$2.8	\$2.9	\$2.9
Mail	\$2.3	\$2.3	\$2.1	\$2.0	\$1.6	\$1.7
Copying	\$2.2	\$2.2	\$2.4	\$2.4	\$2.3	\$2.5
Printing/Graphics	\$4.9	\$4.9	\$4.1	\$3.5	\$3.2	\$3.5
Building Occupancy	\$54.2	\$54.2	\$55.8	\$55.3	\$55.3	\$55.6
Electronic Services	NA	NA	NA	\$0.9	\$0.9	\$0.9
Telephones	\$6.8	\$6.8	\$6.7	\$6.6	\$6.6	\$6.3
Desktop	\$2.2	\$2.2	\$1.5	\$1.3	\$1.6	\$1.6
Network	\$3.0	\$3.0	\$3.1	\$3.1	\$3.1	\$3.1
Contract Closeout	\$0.4	\$0.4	\$0.6	\$0.6	\$0.6	\$0.6
Payroll & Personnel	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1
EIS	NA	NA	NA	\$0.1	\$0.1	\$0.1
TOTAL	\$80.8	\$80.8	\$80.8	\$80.8	\$80.8	\$80.7

- o Table IVB analyzes the absolute dollar and percentage variation by customer between the estimates associated with the FY 1999 request to Congress and the actual billings. There are about 11 organizational units (in **bold**) for which there were deviations in excess of 10% either positive or negative. About half of these variations are directly attributable to reorganizations that occurred during the intervening period.

TABLE IVB: PROGRAM ORGANIZATION	FY 1999 Budget (\$000)	1999 Billings (\$000)	Absolute Change (\$000)	Absolute Change %
Office of the Secretary	969	894	75	8%
Board of Contract Appeals	193	194	1	1%
Bonneville Power Administration	145	156	11	8%
Chief Financial Officer	2,317	2485	168	7%
Civilian Radioactive Waste Mgmt	1,816	1405	411	23%
Cong. & Intergov'l Affairs	762	734	28	4%
Contract Reform & Privatization	0	153	153	NA
Counterintelligence	0	590	590	NA
Defense Programs	4,352	4561	209	5%
Economic Impact and Diversity	734	730	4	1%
Energy Efficiency	5,550	5757	207	4%
Energy Information Administration	7,678	7163	515	7%
Environmental Management	6,839	6513	326	5%
Environment, Safety, and Health	4,900	4461	439	9%
Field Integration	1,056	997	59	6%
Fissile Materials Disposition	482	528	46	10%
Fossil Energy	2,984	3171	187	6%
General Counsel	3,011	2878	133	4%
Hearings and Appeals	982	939	43	4%
Inspector General	1,708	1709	1	0%
Intelligence	0	1189	1,189	NA
International Affairs		1051	1,051	NA
Management and Administration	17,068	17193	125	1%
Naval Reactors	425	484	59	14%
Nuclear Energy	1,417	1273	144	10%
Nuclear Nonproliferation	7,865	7601	264	3%
Policy	2,030	812	1,218	60%
Public Affairs	941	871	70	7%
Science	3,243	3123	120	4%
Secretary of Energy Advisory Board	206	233	27	13%
WAPA/SWPA/SEPA	578	428	150	26%
Worker Transition	487	417	70	14%
Other (including FERC)		107	107	NA
Total	\$80,738	\$80,800		

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

- The following price **reductions** have been taken for FY 2000 under the Board's delegation to the Fund Manager:

Mail: Eliminating charges for Pouch delivery and common mail stops for another year.

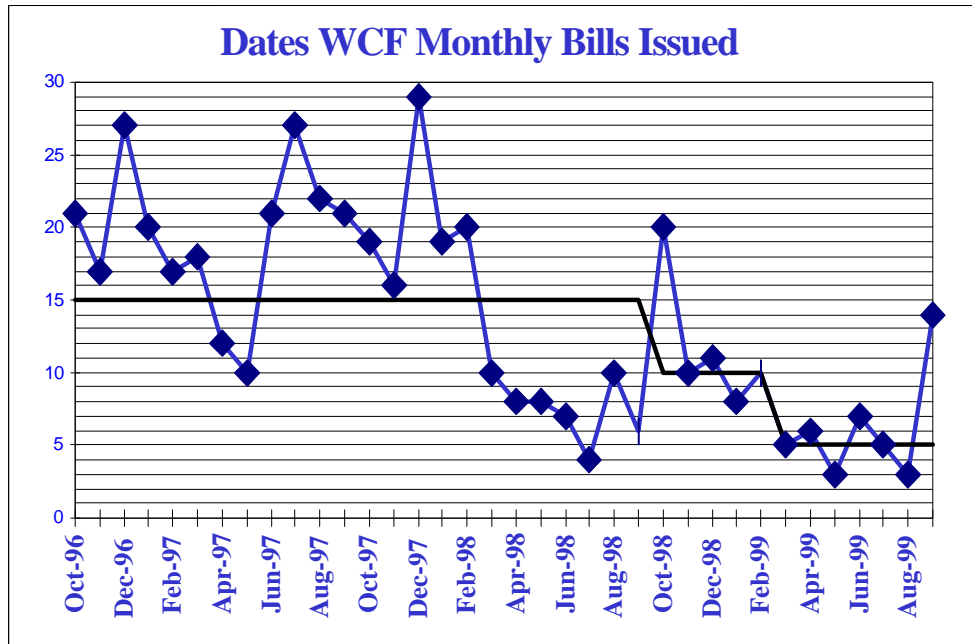
Copying: Reducing the charges for staffed or central copiers from \$.032 to \$.028 per page.

- A price increase of \$200,000 for Network was authorized by the Board in April 1999 , to support a common Internet service provider.
- As recommended above, the Fund Manager seeks authority to transfer up to \$250,000 in available balances from Network to Desktop to finance losses from the FY 1997-98 period.
- The Board has received and deferred action on a proposal to increase Telephone charges so that the infrastructure rate will cover depreciation charges and allow the execution of an upgrade agreement with the vendor at a reduced rate.

VI. Financial Management System Progress

Progress was made by the Fund in three key areas:

- On September 24, 1999, the Inspector General reported on its annual audit of the Working Capital Fund, concluding that "The Fund was operated in compliance with the required administrative controls, used performance measures appropriately, and implemented actions to correct problems identified in the prior period where feasible." The audit did not make any recommendations.
- The WCF billing system continued to improve the timeliness and accuracy of the monthly bills. As shown in the figure below, the lag time between the end of the month and the issuance of the bill was reduced significantly. More important, in FY 1999, the Fund staff, with the cooperation of CFO officials, was able to have the billings entered into DISCAS in each month before the accounts were closed, providing customers with almost real-time reports of their transactions.

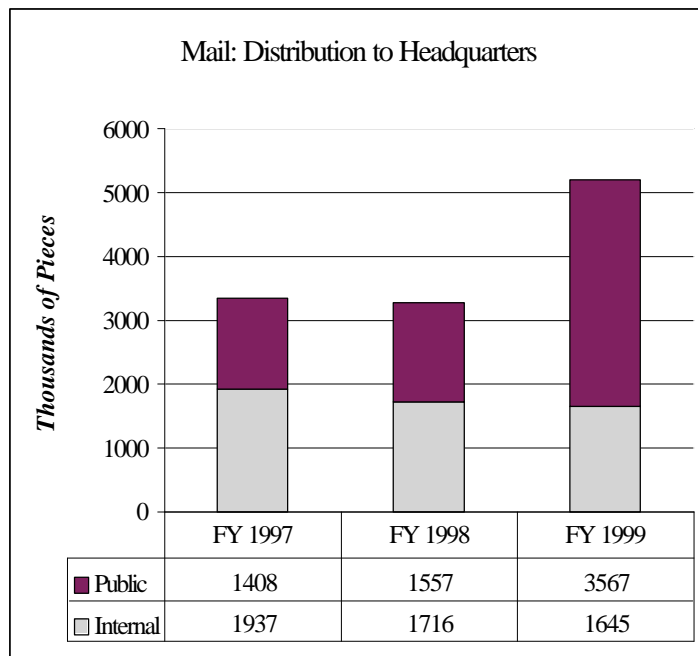
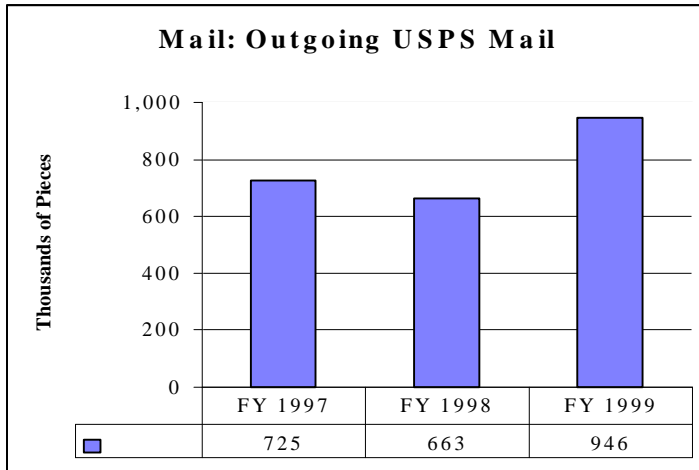


- Finally, following training of business line staff in use of DISCAS, the FY 1999 accounts were closed with no adjustments required to obligations, and cost adjustments were limited to a correction of an entry to record a prior year cost.

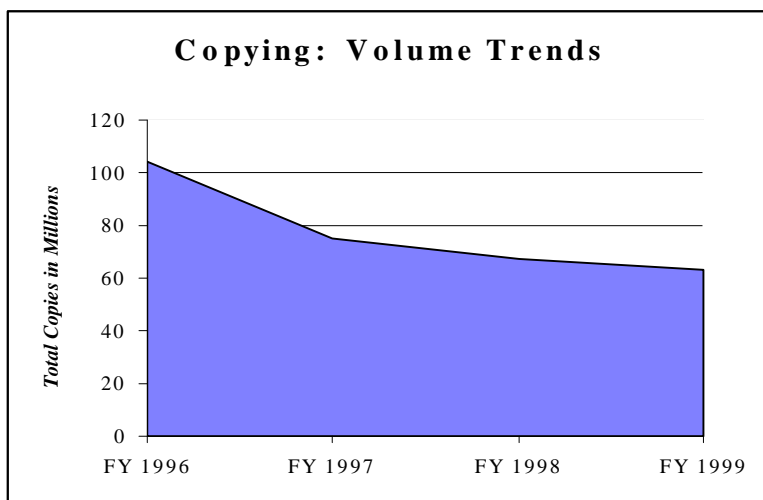
VII. Status of Operating Efficiency Metrics

- The metrics for the Working Capital Fund business lines have generally tracked the trends of prior reporting periods.
- While program customers continue to respond to incentives, the fall-off in consumption levels has not been as great during FY 1998 as it had been in prior years.
- Mail:** As shown in the following charts, Headquarters use of USPS for outgoing mail increased substantially in FY 1999 after a drop-off in the early years of the Fund. More significant has been the very large increase in the volume of mail being delivered within Headquarters. As the second graph below demonstrates, this is due to an increase in incoming USPS mail, where the decline of 90% from FY 1996 to FY 1998 has clearly

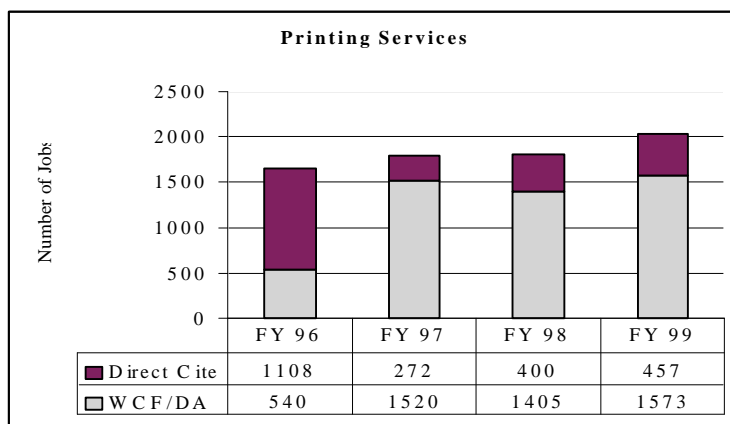
been reversed. Internal distribution volume has continued to decline.



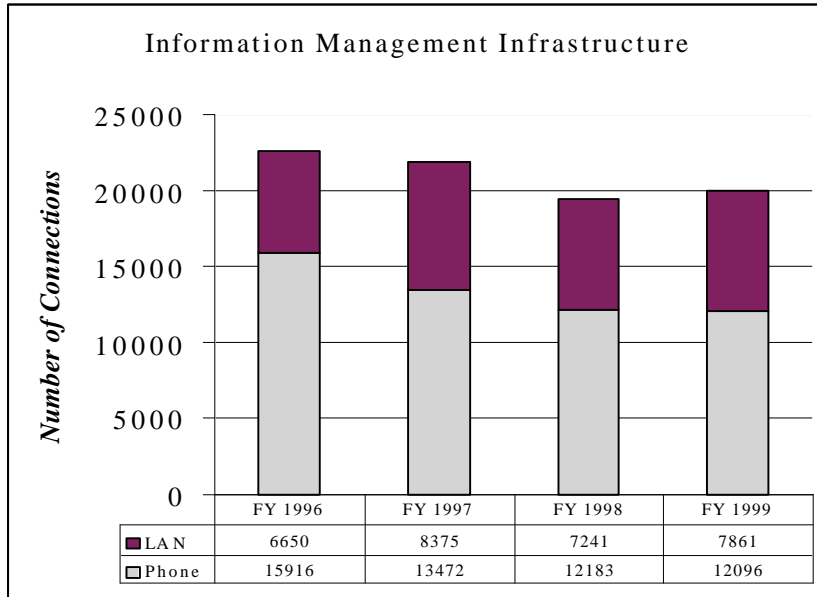
Copying: While the number of copies generated had continued to decline, as shown in the figure below, the rate of decline has lessened. In the first year of the Fund, use of copiers decreased by approximately 28%; the second year reduction in FY 1998 was approximately 11%. During FY 1999, a further 6% reduction was experienced.



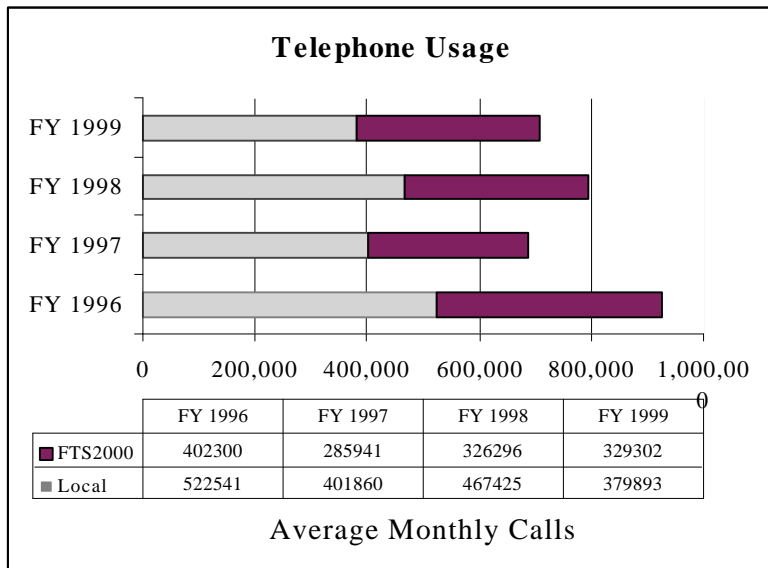
- Printing and Graphics:** Before the Fund started up in FY 1997, a significant share of printing jobs were financed through direct citation of program appropriations. Therefore, as shown in the figure below, the Fund did not significantly alter the pattern of overall demand for printing jobs. However, in FY 1999, the number of printing jobs increased in both categories.



- Information Management Infrastructure:** As in prior years, customers continued to reduce telephone connections and to increase LAN connections. In FY 1999, for the first time, the LAN expansion exceeded the decreased telephone connections, resulting in a slight increase in this aggregate measure of infrastructure.



- Telephone Usage:** After increasing during FY 1998, the average number of telephone calls per month declined again in FY 1999, due to the decrease in the number of long distance calls. Not shown in the figure below is that the average number of minutes per month spent on long distance calls placed from Headquarters also declined in FY 1999 to a level that is about 5,000 hours per month – about an hour per Federal employee – below the baseline established in FY 1996 before the Fund was created.



- Contract Closeout:** The inventory of Headquarters contracts awaiting closeout stabilized in FY 1999 after several years of decline, as shown below. This can be interpreted as having achieved, through customer/supplier cooperation, an equilibrium at a reasonable workable inventory of closeouts, where the number new contracts becoming available for closeout is equal to the number on which work is actually completed.

